

Message Text

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ACTION EA-09

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OES-06 SP-02 SS-15 STR-04 TRSE-00 ACDA-07 PA-01 PRS-01

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C O N F I D E N T I A L JAKARTA 15883

E.O. 11652: GDS

TAGS: ENRG, ID

SUBJECT: CALTEX PROPOSES INCENTIVE PAYMENTS FOR EXPLORATION

1. SENIOR EXECUTIVES OF SOCAL AND TEXACO, DURING CALL ON AMBASSADOR DECEMBER 7, INFORMED US THAT THEY HAVE MADE PROPOSAL FOR EXPLORATION INCENTIVE PAYMENTS TO PRESIDENT OF PERTAMINA, GENERAL HARYONO. ALTHOUGH THEY DID NOT SPECIFY DETAILS OF PROPOSAL, THEY INDICATED THAT NET EFFECT OF THEIR PROPOSITION WAS EQUIVALENT TO AN ADDITIONAL RETURN OF ROUGHLY \$1.00 PER BARREL FROM NEW WELLS.

2. EXECUTIVES SAID THAT THEIR DISCUSSIONS WITH HARYONO HAD BEEN FRANK AND OPEN AND THAT THERE WAS NO "HAGGLING." HARYONO'S FIRST REACTION HAD BEEN TO COMMENT THAT "MOST FAVORED COMPANY" PRINCIPLE WOULD HAVE TO APPLY; I.E. THAT WHATEVER GOI AGREES TO FOR CALTEX (ON EXPLORATION INCENTIVES) WOULD HAVE TO BE APPLIED TO OTHER, INCLUDING PRODUCTION SHARING, COMPANIES. THEY SAID HARYONO HAD LISTENED ATTENTIVELY TO CALTEX PRESENTATION WHICH HAD EMPHASIZED FOLLOWING MAIN POINTS: (A) CALTEX HAD REVIEWED ITS SITUATION IN INDONESIA VERY CAREFULLY AND HAD CONCLUDED THAT RELATIVE TO OTHER AREAS IN THE WORLD WHERE THEY MIGHT UNDERTAKE FURTHER EXPLORATION, REASONABLE INCENTIVES WERE IN ORDER FOR INDONESIA. (B) CALTEX RECOGNIZES REVIVAL OF EXPLORATION ACTIVITIES VERY IMPORTANT FOR FUTURE OF INDONESIAN ECONOMY AND BALANCE OF PAYMENTS BUT BASED ON

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THEIR SEISMIC SURVEYS DOES NOT CONSIDER OIL RESERVE

SITUATION HERE SUFFICIENTLY FAVORABLE TO ENGAGE IN FURTHER EXPLORATION WITHOUT INCENTIVES. CALTEX KNOWN RESERVES WERE 2 MILLION BARRELS OVER A PERIOD OF TWO YEARS. THEY FELT THAT HARYONO UNDERSTOOD THEIR ARGUMENTATION AND THAT HARYONO HIMSELF DID NOT APPEAR UNSYMPATHETIC TO THEIR PROPOSAL. HARYONO INDICATED THE MATTER WOULD BE CAREFULLY REVIEWED BY GOI. EXECUTIVES OBSERVED, HOWEVER, THAT THEY WERE NOT SANGUINE THAT A FAVORABLE RECOMMENDATION BY HARYONO WOULD BE SUSTAINED ELSEWHERE IN GOI.

3. COMMENT: ALTHOUGH CALTEX APPEARS TO BE TAKING A TAKE-IT-OR-LEAVE-IT ATTITUDE, THIS MAY MERELY BE A NEGOTIATING PLOY. ON THE OTHER HAND, GIVEN THE CONTRACT EXPERIENCES OF THE OIL SECTOR DURING THE PAST YEAR, IT IS BY NO MEANS A FOREGONE CONCLUSION THAT CALTEX WOULD PROCEED WITH MAJOR CAPITAL OUTLAYS FOR NEW EXPLORATION HERE WITH ANYTHING LESS THAN PROPOSAL NOW SUBMITTED. THE BALL IS NOW IN GOI'S COURT, AND GOI'S REACTION TO CALTEX PROPOSITION MAY WELL SET PACE FOR FUTURE EXPLORATION ACTIVITIES. AS MATTERS STAND NOW, AN ENTIRE YEAR OF NEW EXPLORATION ACTIVITIES HAS BEEN LOST; AND ACCORDING TO THE CALTEX EXECUTIVES, WHEREAS ABOUT 30 SEISMIC CREWS WERE OPERATING HERE ABOUT A YEAR AGO THERE ARE ONLY 3 CREWS OPERATING NOW. GIVEN THE PRESENT UNCERTAINTIES, CHANCES ARE THAT NO NEW DRILLING CAN BE INITIATED UNTIL LATE 1977 AT THE EARLIEST.

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